THE REAL ESTATE ANALYSTS

The Real Estate ANALYST

NOVEMBER 1945

Roy Wenzlick
Editor

A concise easily digested periodic analysis based upon scientific research in real estate fundamentals and trends...Constantly measuring and reporting the basic economic factors responsible for changes in trends and values.....Current Studies.... Surveys....Forecasts

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VOLUME XIV

REAL ESTATE ECONOMISTS, APPRAISERS AND COUNSELORS

CONSTRUCTION COSTS IN EIGHTY CITIES

IN spite of the fact that practically no building is yet taking place, construction costs of new residential buildings are still of utmost importance to the real estate investor, the mortgage lender and to the real estate broker. The chief advantage of replacement cost figures today is in testing market values. In many cities at the present time properties are selling considerably above their present replacement cost new. This is due to the scarcity factor, and the amount above replacement cost constitutes a premium which is paid for immediate housing. This premium in some communities is running from 30 to 50 per cent above replacement costs. If replacement costs stay at their present level and if a sizable volume of construction develops in the postwar period this premium will naturally dwindle, as most people would prefer a new house at the same price to one which already shows signs of physical deterioration. In an active market the value of existing buildings will never rise very much above their replacement costs.

The charts on pages 318 to 324 of this report show for eighty cities the cost of building a typical building from 1936 until the relatively recent past. It will be noticed that in some cities the figures do not come down to the present and in these cities, of course, the recent rises are not shown.

Since some of the charts do not show the last few months, it is rather difficult to compare cities. In St. Louis the figures are carried through to the last month and it will be noticed that a large part of the rise occurred in the very recent past. This past is not shown on many of the other charts. The charts are given, however, for a comparative picture and due to the fact that not only the current levels are of interest but the speed at which those levels have been changing.

The figures are compiled by the Federal Home Loan Bank Administration and by Roy Wenzlick & Co. A house that fits the specifications used in each city is pictured on the spread. Cost figures on the construction cost of this house built in St. Louis are available for thirty-two years.

In the thirty-two years for which these figures are available for the St. Louis house many changes have necessarily been made in the specifications from time to time. Copper guttering, downspouts and flashing have been in and out several times because of the first and second World Wars. Whenever any material was unavailable the best substitute obtainable was figured.

The house pictured is a six-room frame dwelling. The design is simple and efficient. The interior arrangement can be considered fair, and the con-

(continued on page 325)

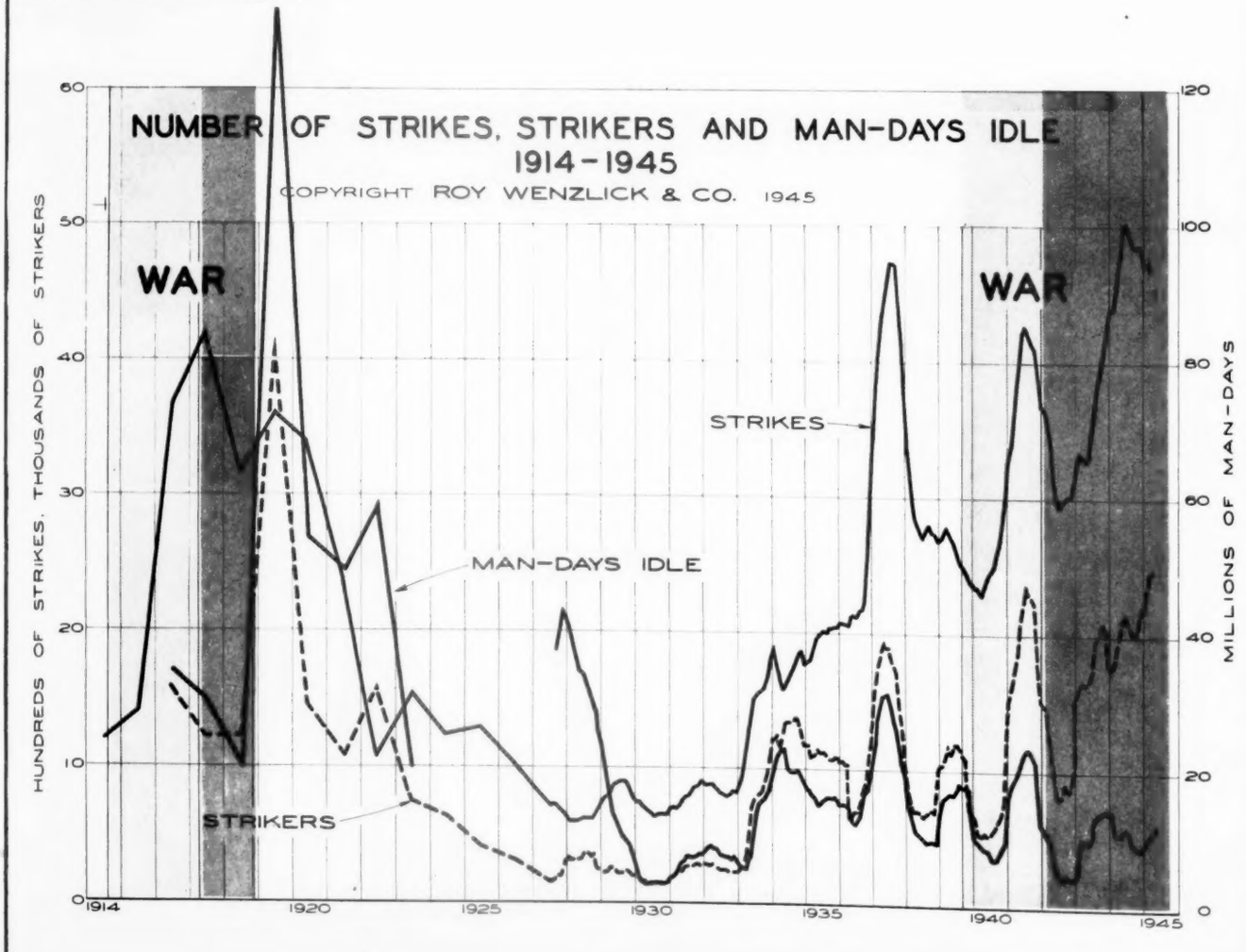
STRIKES AND LABOR TROUBLE WILL HIT NEW HIGH THIS WINTER

STRIKE and labor trouble figures are charted below, smoothed by using a twelve-month moving average. The war periods on this chart are shown in red with our participation in the wars shown by a darker tint.

This chart will show quite clearly the heavy labor trouble which accompanied the First World War and the few very large strikes which occurred shortly after the end of the war. The fact that strikers and man days idle both reach high peaks would indicate that at least some of the labor trouble was isolated in larger plants.

The large number of strikes occurring at the present time in comparison with the number of strikers would indicate that now there is a tremendous amount of labor trouble in small plants as well as in larger ones. The number of strikes is at a new high but the number of strikers is still considerably below the peak of 1919 and the number of man days idle is very low in relationship to the 1919 peaks.

We think it probable that strikes will reach their peak within the next few months and that reconversion difficulties will gradually disappear toward the middle of 1947.

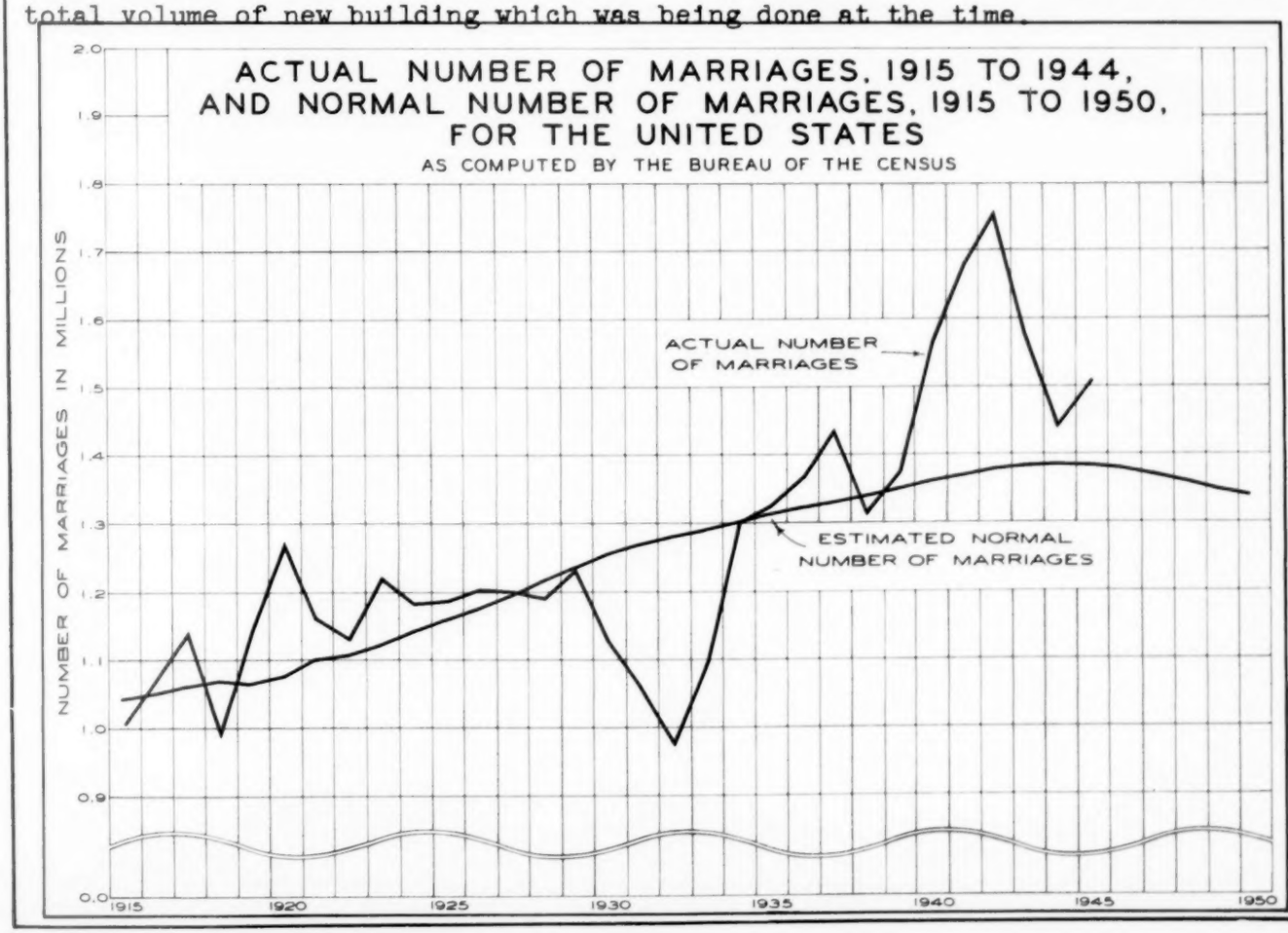


THE MARRIAGE BOOM CONTINUES

THE chart below is based on figures computed by the United States Bureau of the Census. The red line on this chart represents the number of marriages that would have occurred in each year if the marriage rates had been the same as the average for the years 1920 to 1939. They were computed by multiplying the number of women in five-year age intervals living in each year 1915 to 1950, by average annual marriage rates for women in these age intervals in the period 1920 to 1939. The marriage rate will remain considerably above normal during 1946 but by 1947 and 1948 it will probably be dipping below the normal line.

We have pointed out a number of times in the Real Estate Analyst that a marriage boom always precedes a real estate boom. Our present real estate boom is a result of the increased demand for houses and the difficulties during the past few years in augmenting the supply of dwellings.

We formerly published city-by-city figures on the marriage rate in all principal American cities but this has not recently been reprinted because of the fact that the marriage rate was unusually high in all cities close to large camps due to the fact that many soldiers received their licenses at these points. So soon as demobilization is approximately completed, these city-by-city figures will again be significant and will again be republished. In periods of depression the dissolutions of marriage by death and divorce exceed new marriages by a sizable amount. On the other hand, during prosperous periods we have found that new marriages exceed dissolutions by a large amount. The net change during the last boom over the rate during the depression created enough additional families each month to more than offset the total volume of new building which was being done at the time.

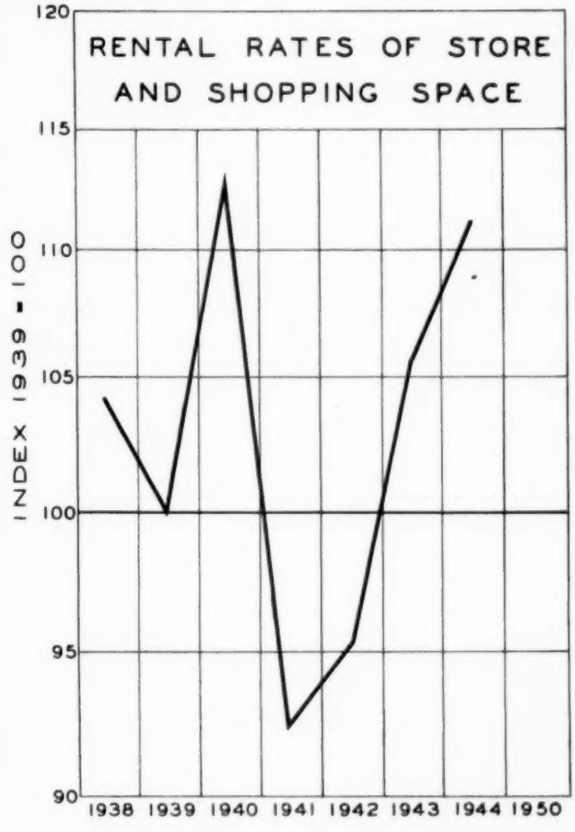


THE chart above shows gross urban vacancy in residential units from 1913 to the present. It has been compiled by Roy Wenzlick & Co. from many sources and includes approximately 110 cities. It has been checked against the Federal census study of all residential dwelling units which showed in April 1940, 4.2 per cent of housing accommodations vacant. In the fall of 1943 the gross vacancy rate had dropped to 2.3 per cent, but vacancy increased very slightly and rose to approximately 2.5 per cent by the early part of 1945.

Vacancy is again decreasing due to the returning servicemen and is now at a lower point than any yet reached. The chances are that the present housing shortage will continue for two or three years, and possibly longer. Gross vacancy includes all vacant units regardless of the condition of repair or quality of housing. This figure also includes cities which have not shared in much war activity.

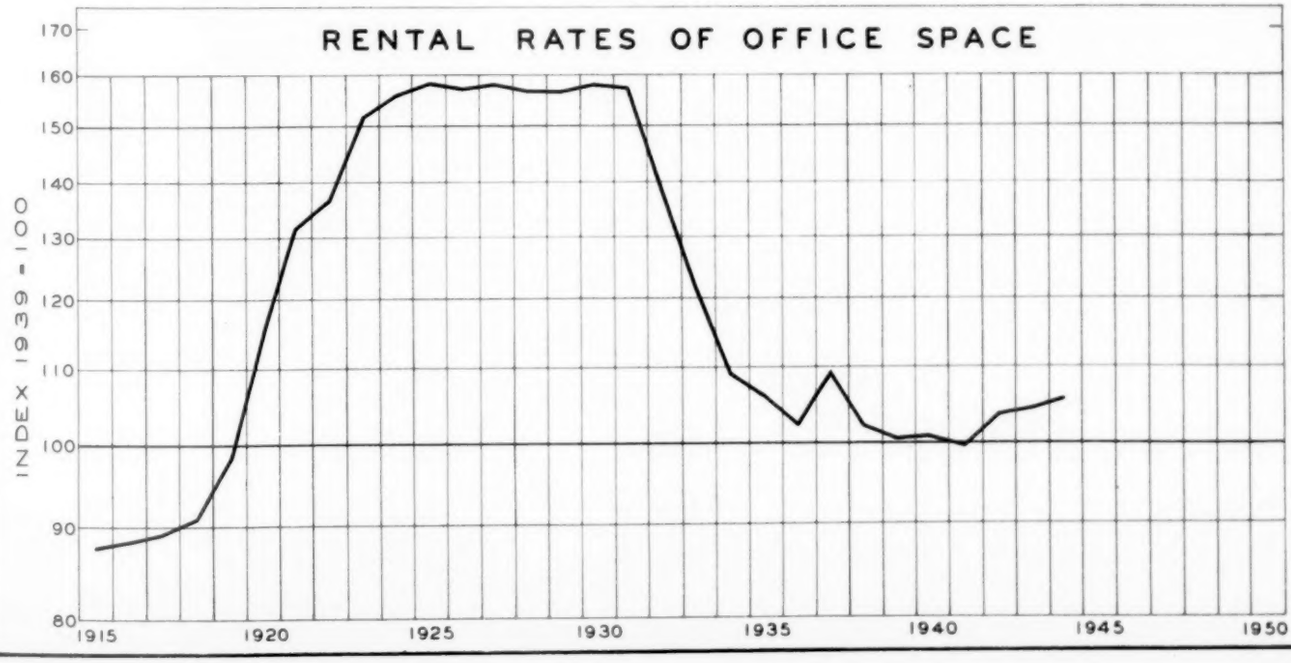
COMMERCIAL RENTS ARE LOW

THE chart below shows the fluctuations in the rental rates per square foot of office space from 1915 through 1944. On this chart 1939 (prewar) is used as 100. In 1944 office building rents were 5.2 per cent above the 1939 level. The average of all years included on the chart, however, is 21.1 per cent above the 1939 level.



In view of the fact that new office buildings will be built at very much higher costs and that the maintenance of these buildings will be more expensive than in the past, we are confident that office building rents will be much higher and that in retrospect the rents of 1945 will be considered low. This is a good time for a tenant to make a long-term fixed payment lease.

The chart above shows the fluctuations in the rental rates of store and shopping space in downtown business districts from 1938 through 1944. These rents have been subject to considerable fluctuation in the recent past but in spite of the rise since 1941 we still consider shopping space rents low. The rents of shopping space will vary primarily with dollar volume of sales. Dollar volume of sales will vary with business activity and with fluctuations in the price level. The outlook for the next five or six years on general business is good and the chances are that we will have a rising price level. This would indicate that store rents would rise still further and that a tenant would be safe under present conditions in making a fixed payment lease. The owner of a building, however, would be far wiser to insist on a percentage lease with a reasonable minimum.



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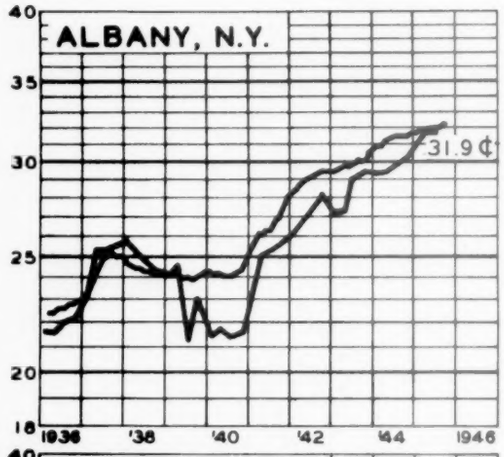
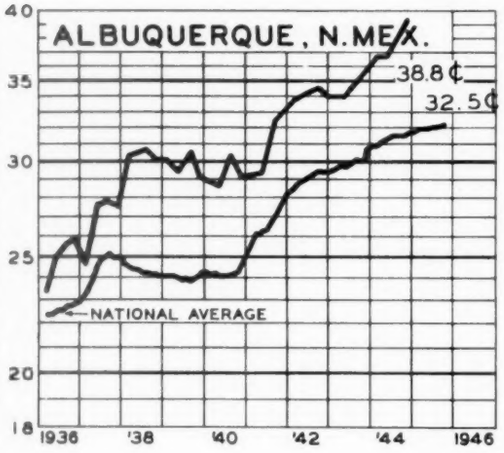
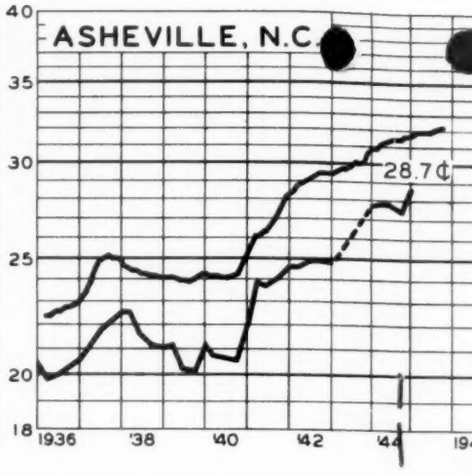
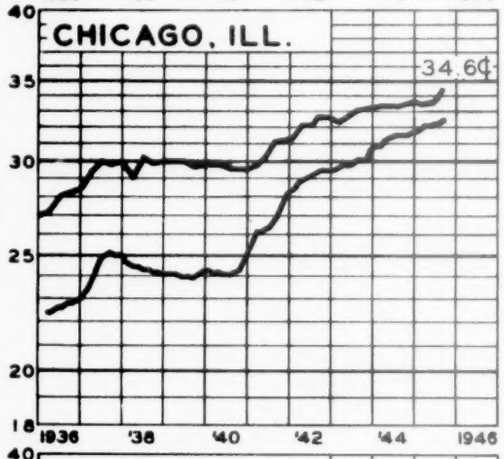
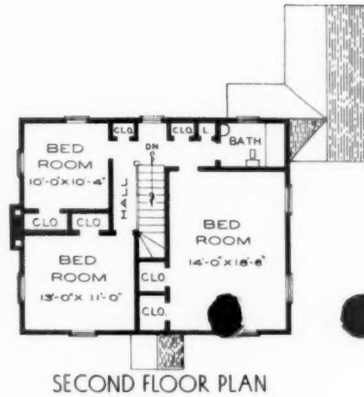


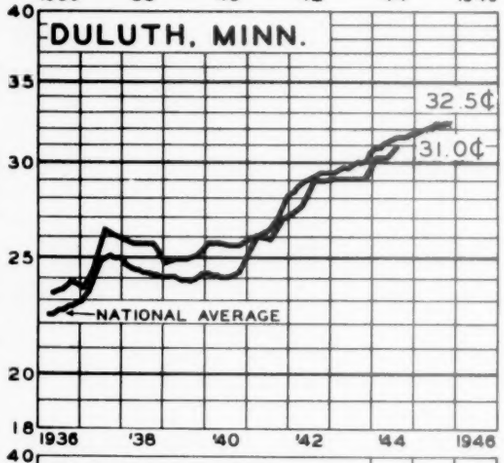




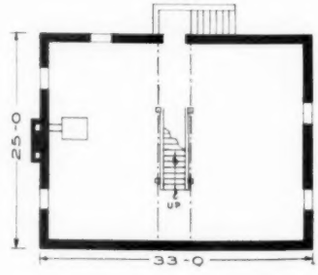




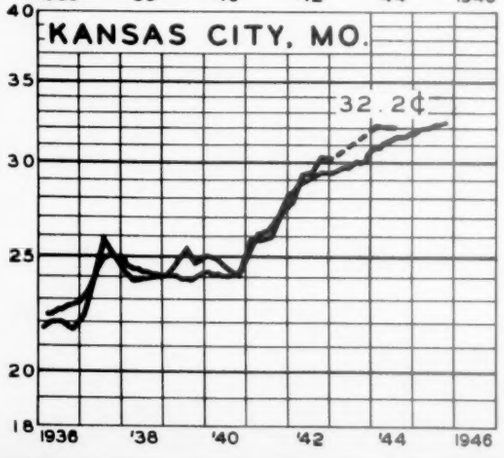
SECOND FLOOR PLAN

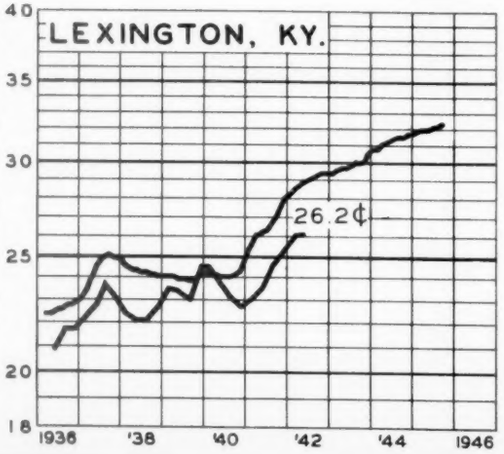


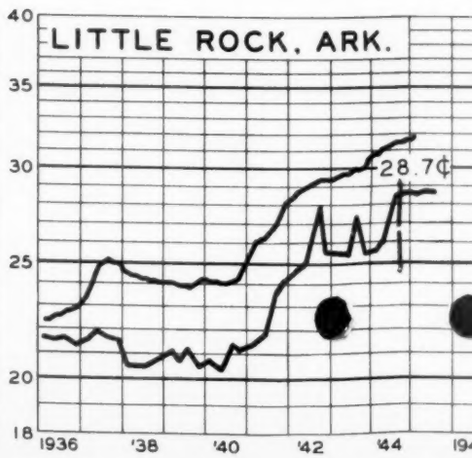
FIRST FLOOR PLAN



BASEMENT PLAN







FLUCTUATIONS IN CONSTRUCTION COSTS

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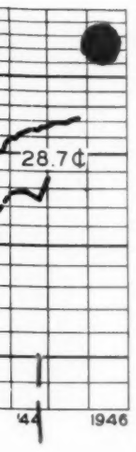

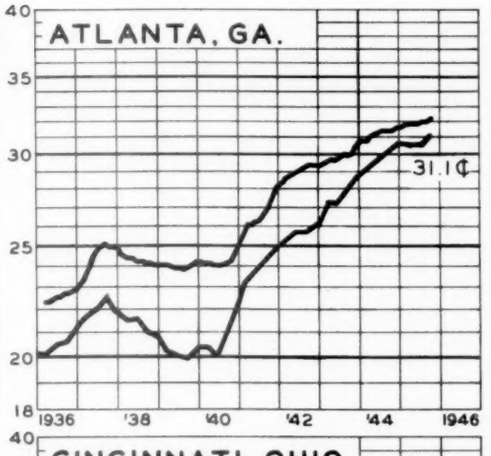

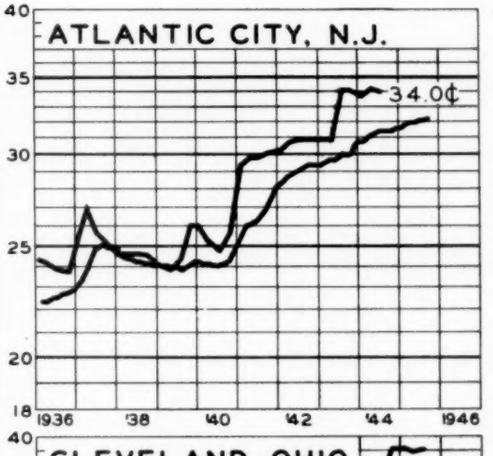

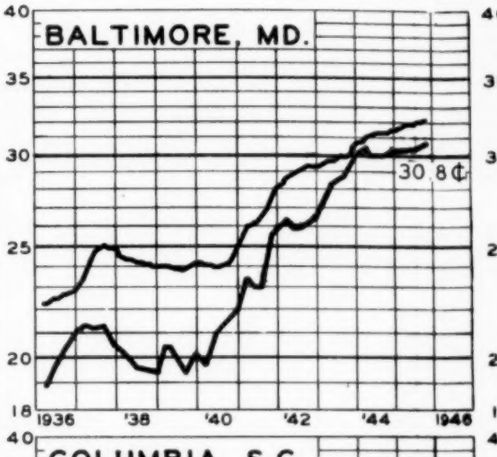

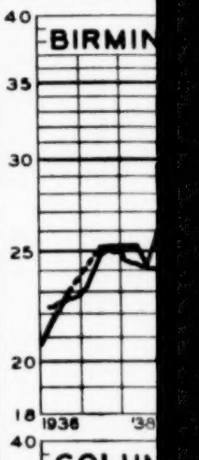

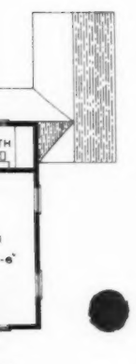

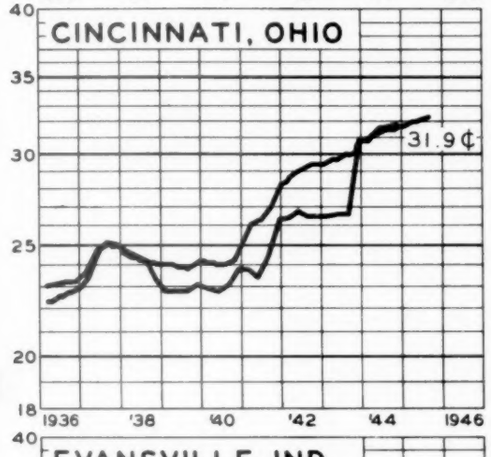

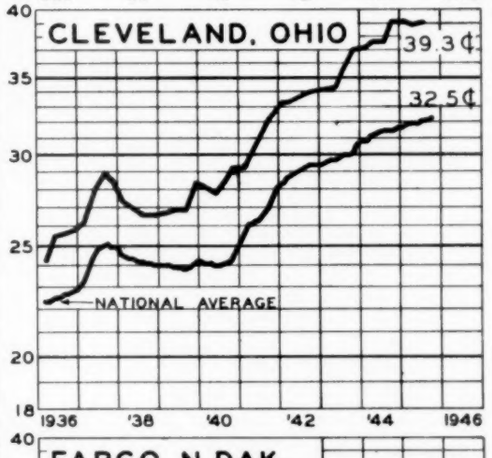

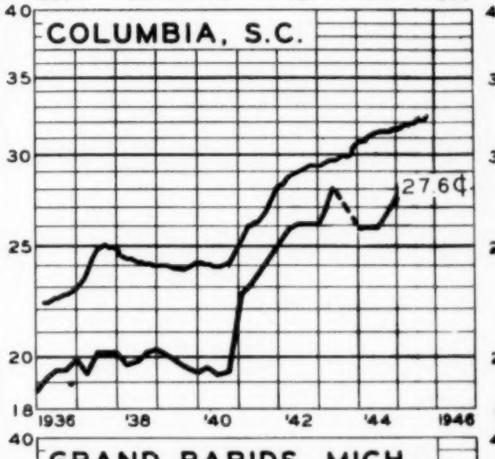

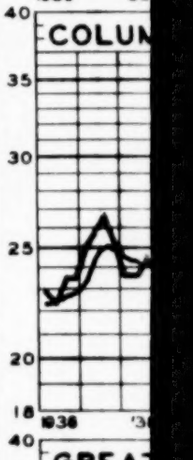

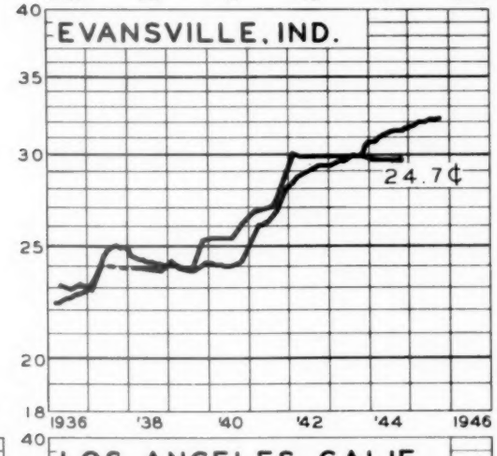

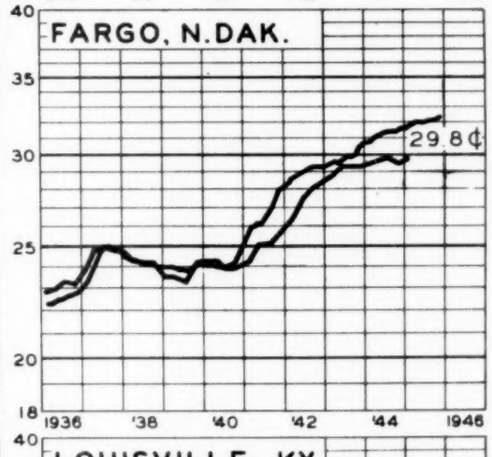

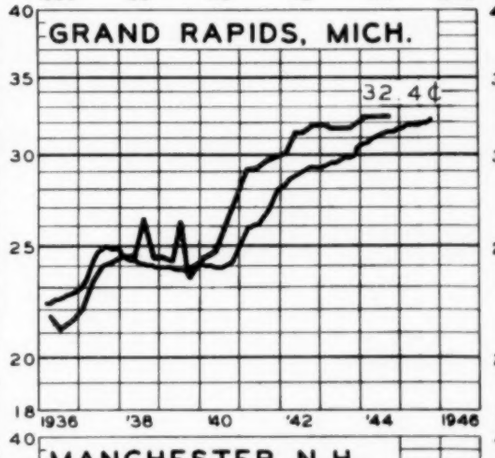

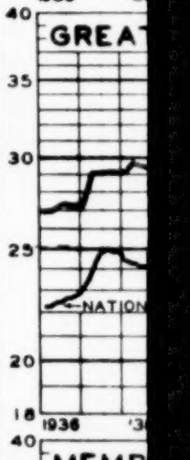

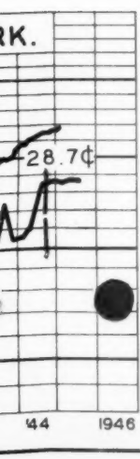

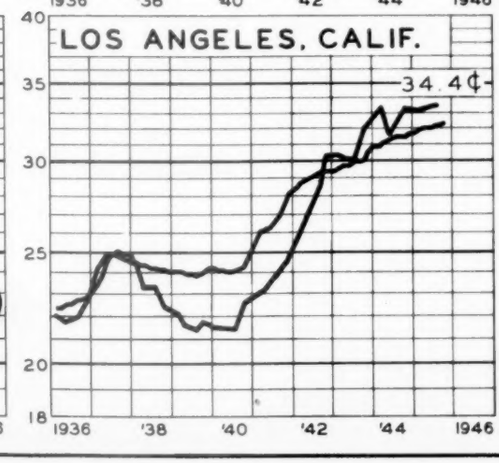

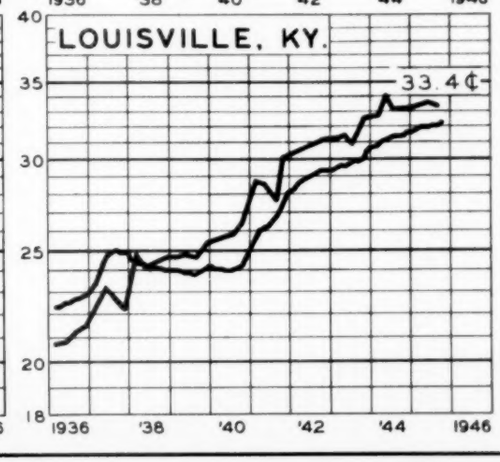

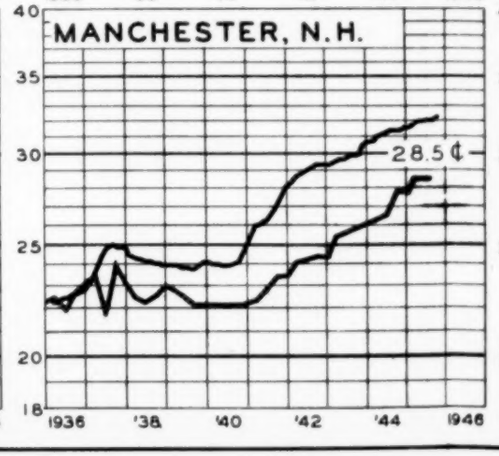

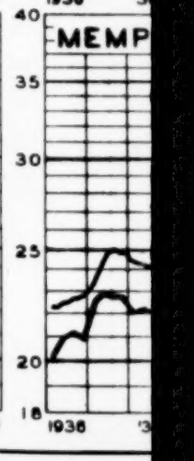

OSTS PER CUBIC FOOT IN 80 CITIES

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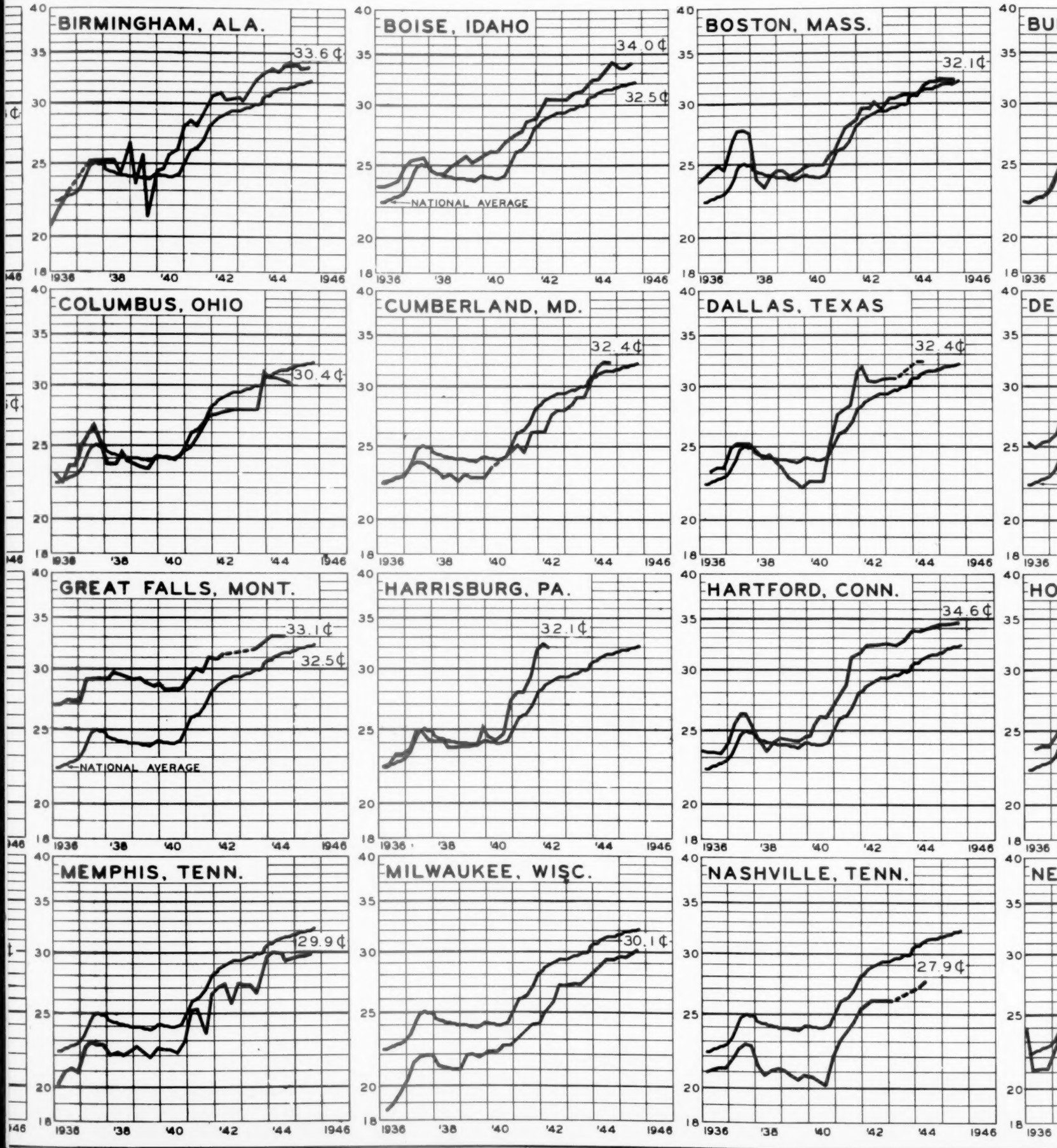

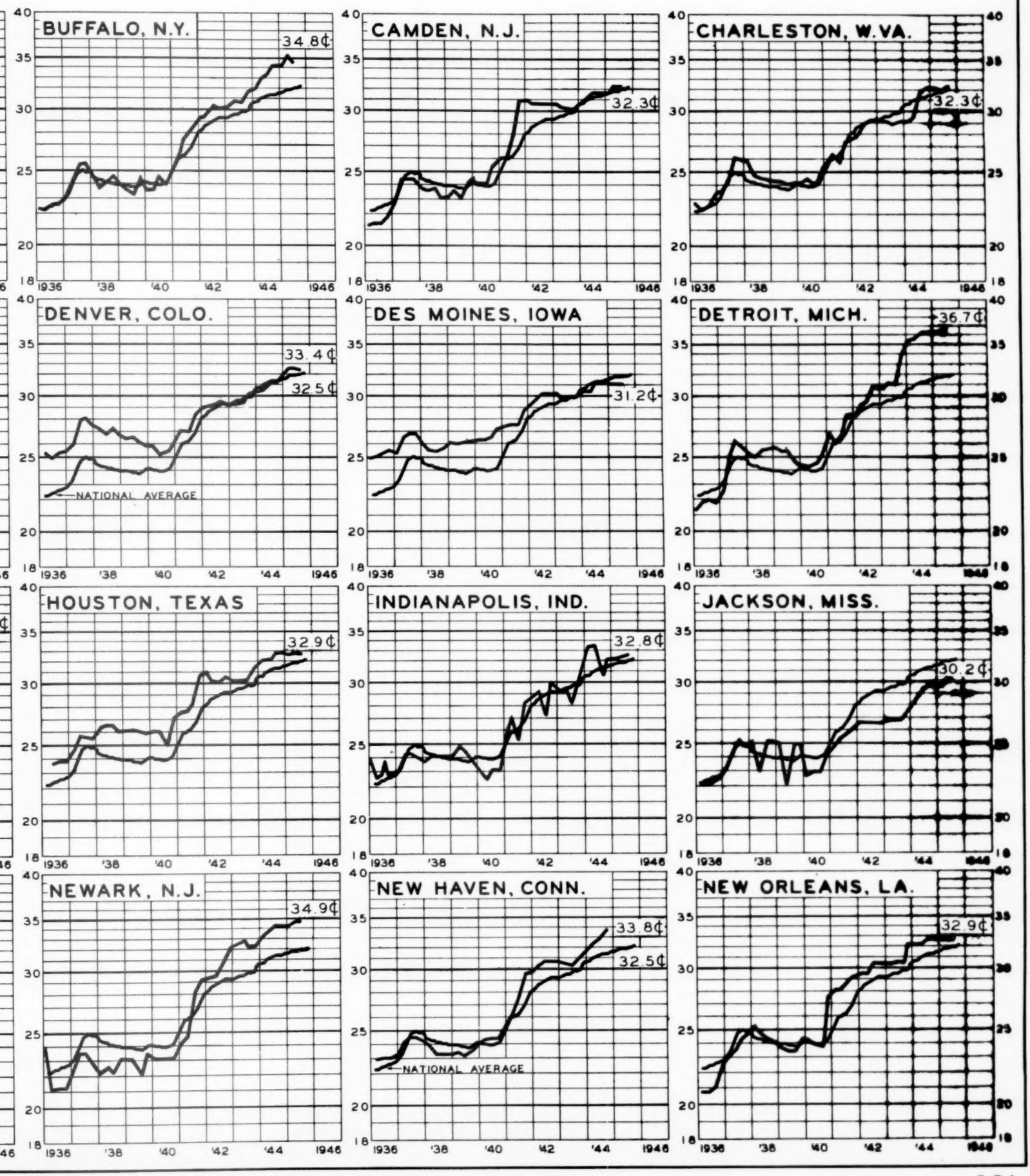
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34.8¢
CAMDEN, N.J.
32.3¢
CHARLESTON, W.VA.
32.3¢
DENVER, COLO.
33.4¢
32.5¢
NATIONAL AVERAGE
DES MOINES, IOWA
31.2¢
DETROIT, MICH.
36.7¢
HOUSTON, TEXAS
32.9¢
INDIANAPOLIS, IND.
32.8¢
JACKSON, MISS.
30.2¢
NEWARK, N.J.
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NEW HAVEN, CONN.
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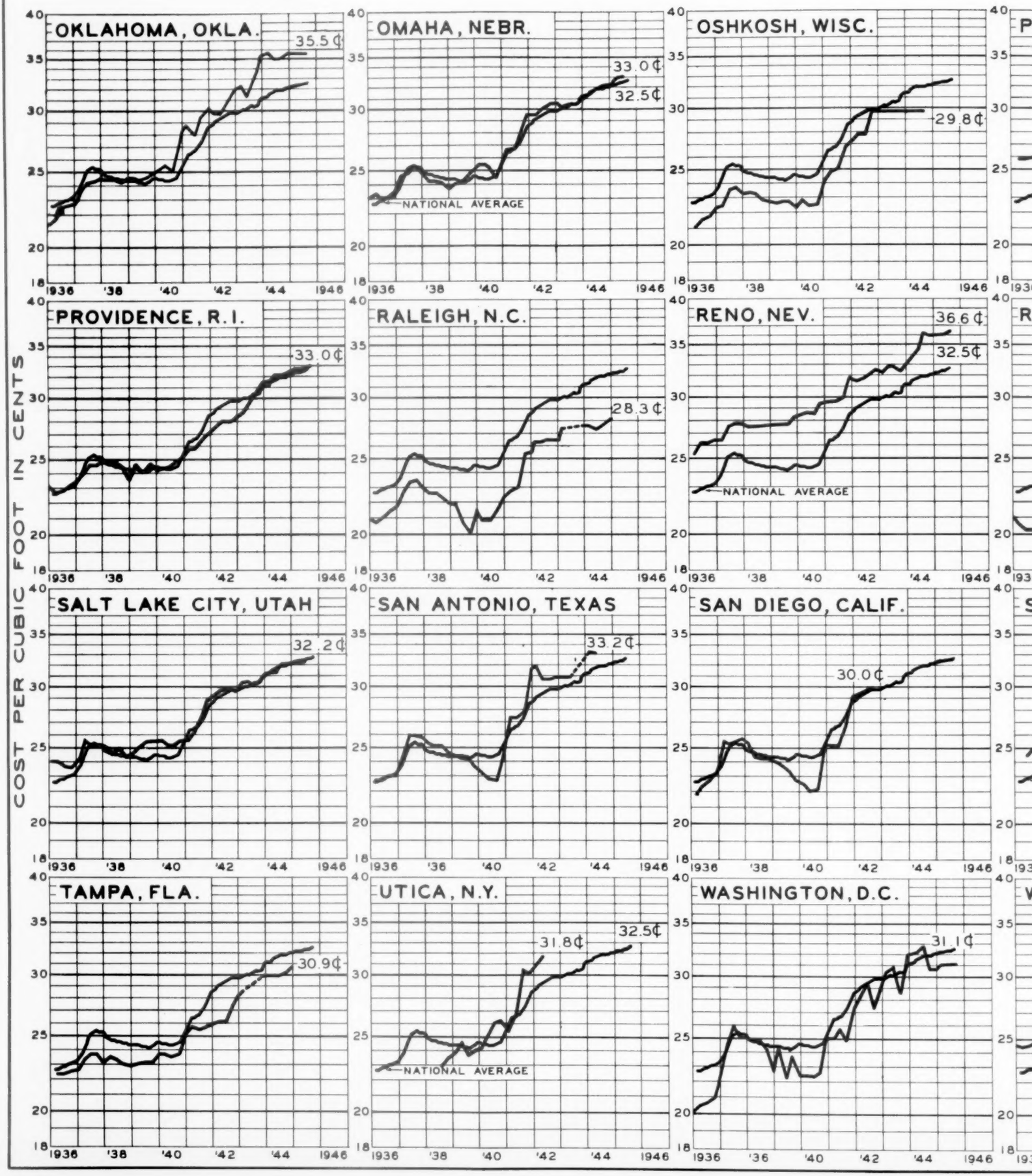

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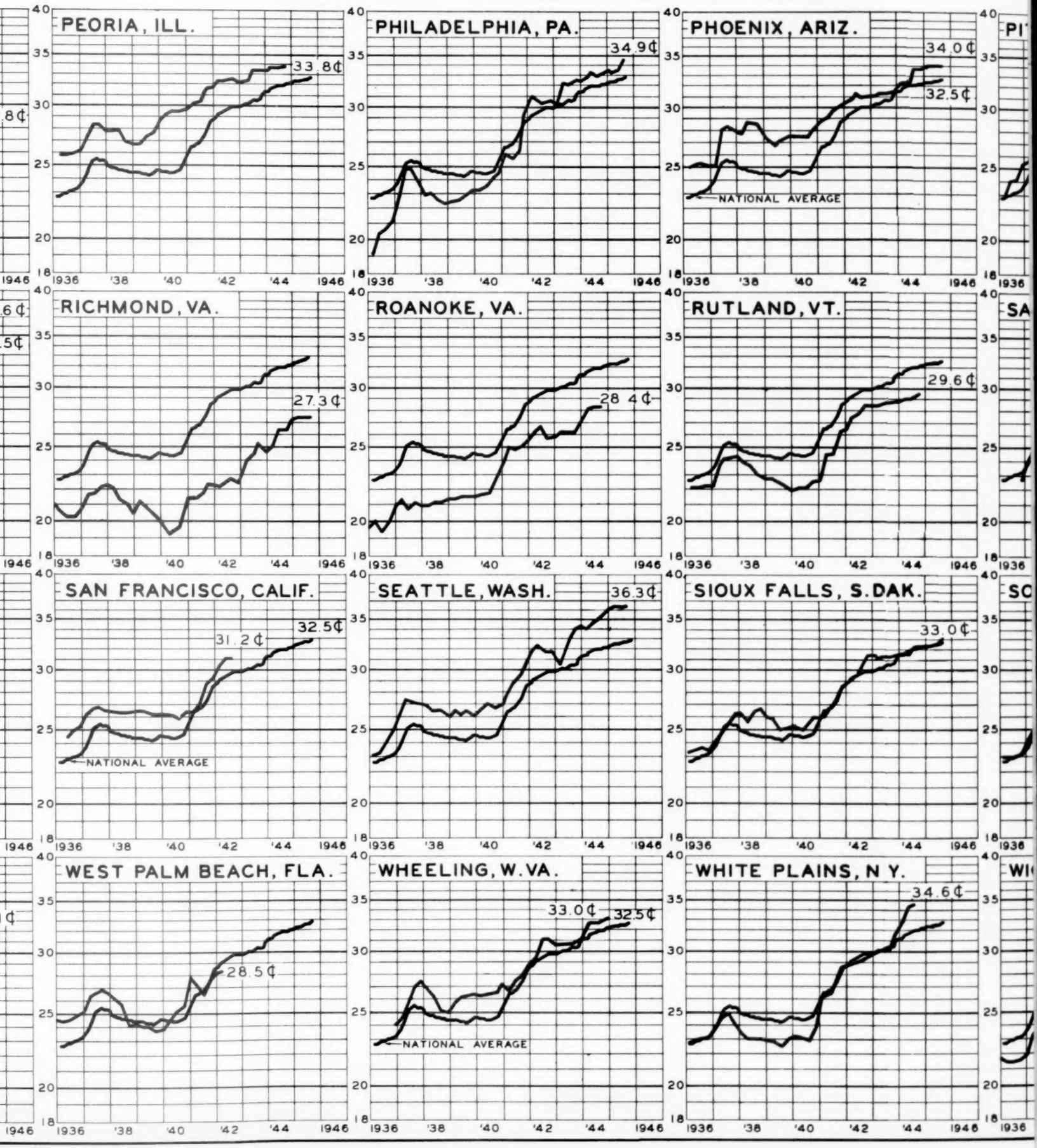

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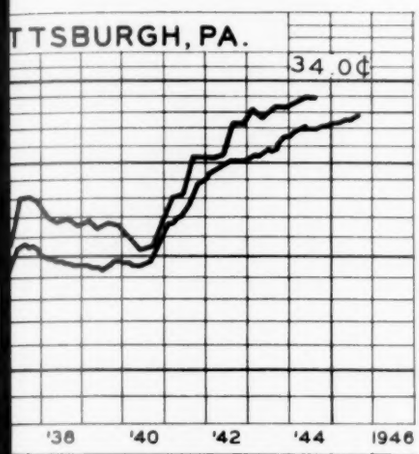
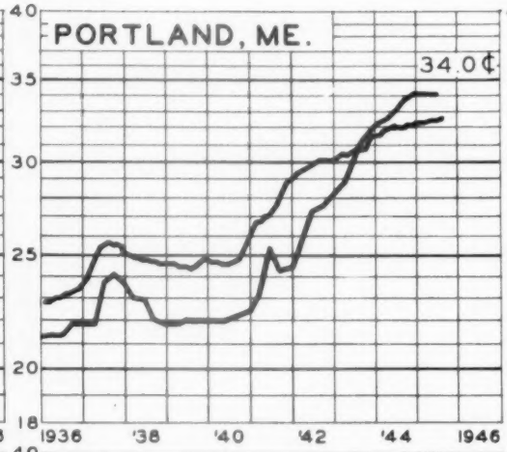
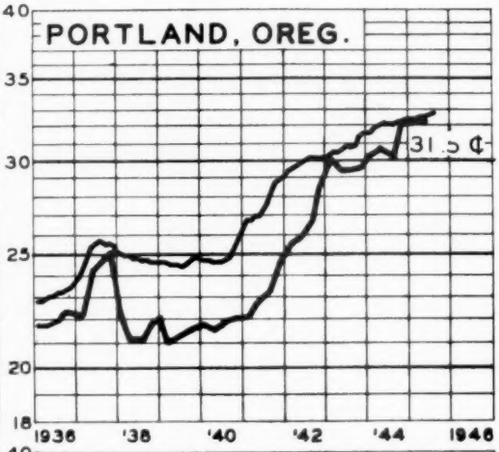
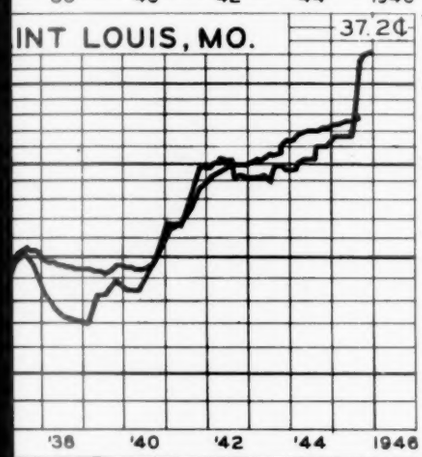
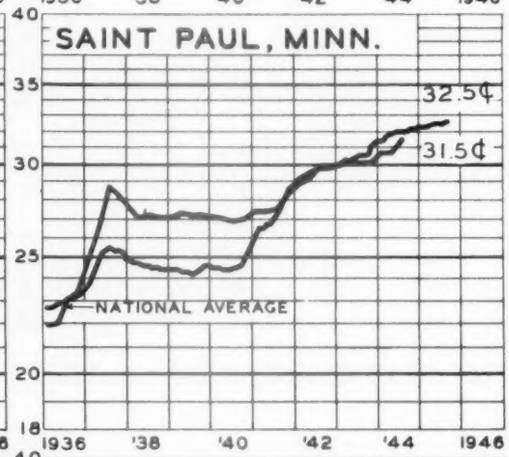
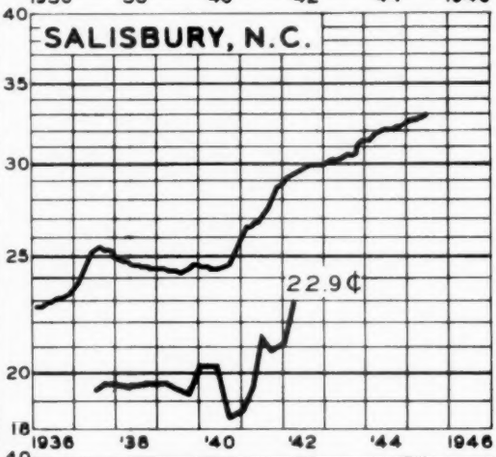


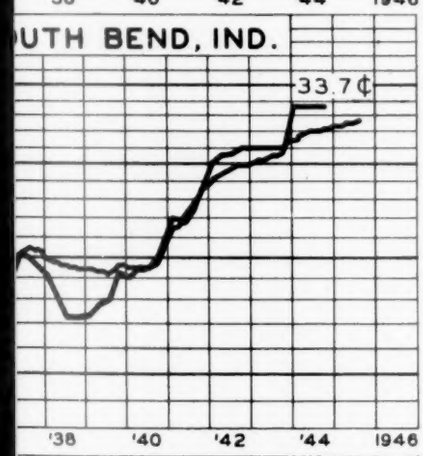


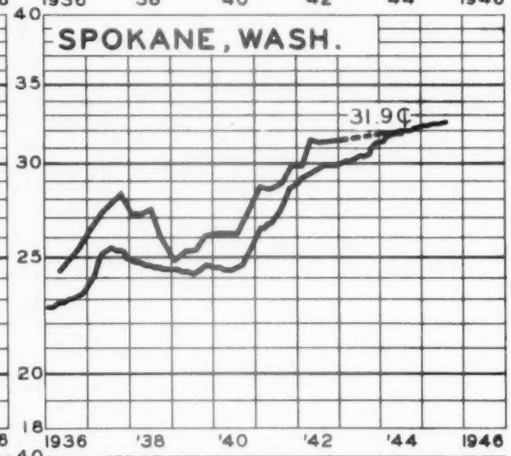


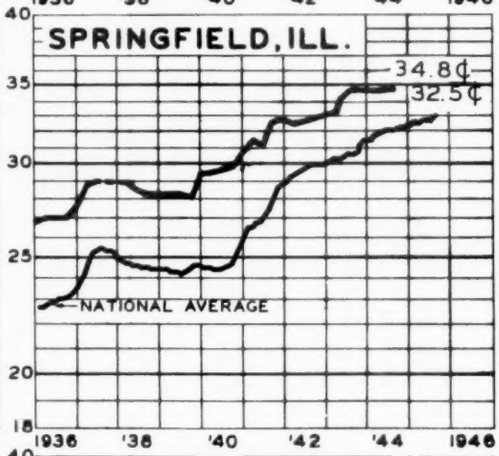


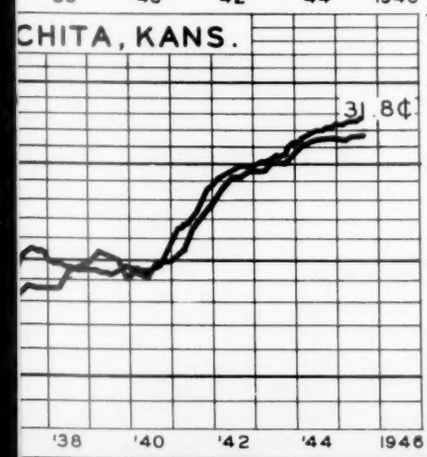


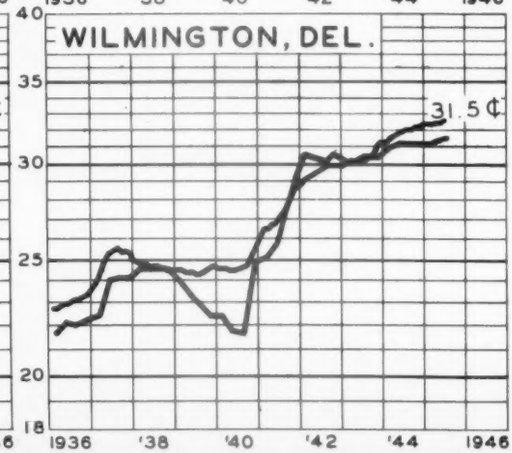


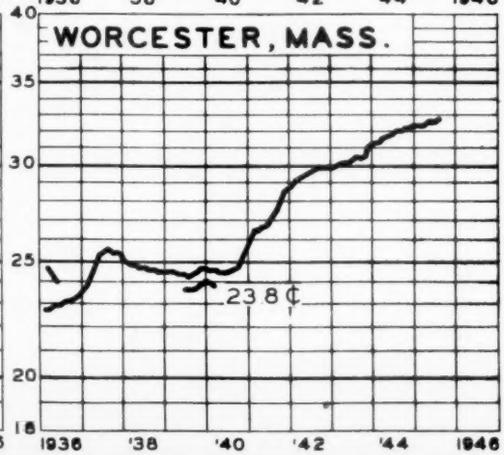








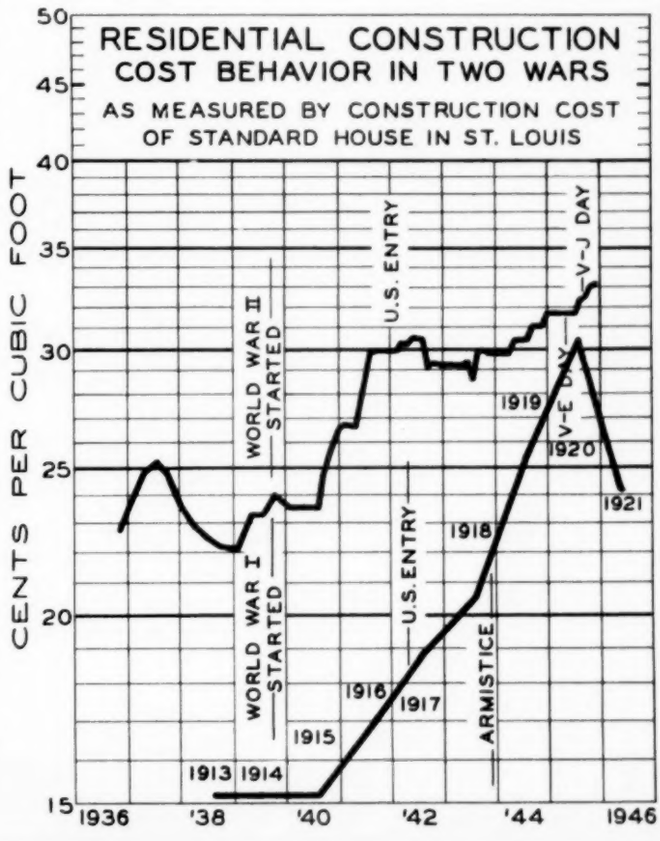




(continued from page 313)

struction is average in quality. The plans and specifications call for concrete foundations, concrete basement and garage floors; concrete slabs for front and rear stoops; frame exterior walls with 3/4" x 10" redwood siding, with stucco gable ends; three coat plaster walls; oak flooring; pine B & B trim; 1-3/8" six panel #1 pine doors; tile wainscot and floors in bathroom and lavatory; two kitchen cabinets; 266 lbs. asphalt shingle roof with copper gutters and downspouts; modern bathroom fixtures; hot water heat; modern electrical installation; insulation in exterior walls and second floor ceiling. The house is not completed ready for occupancy; it includes all fundamental structural elements, an attached one-car garage, an unfinished cellar and an unfinished attic. It does not include wallpaper nor other wall or ceiling finish on interior plastered surfaces, lighting fixtures, refrigerators, water heaters, ranges, screens, weather stripping, nor window shades. The cost of the land is not included nor surveying the land, the cost of planting the lot nor of providing walks and driveways. The architect's fee is not included, nor is the cost of a building permit, the financing charges, or the sales cost.

The chart below shows the behavior of residential construction costs in St. Louis as measured by the cost of constructing our standard house there. The blue line on this chart shows the fluctuations in cost per cubic foot in cents from 1936 to the present; the red line on the chart shows the similar figures for the period from 1913 through 1921. It is quite apparent that costs have not gone up as fast or as far during the Second World War period, but, on the other hand, we have had no experience thus far with costs in a free market. After all price controls are removed the probability is that prices will rise still further. There is even some chance that there might be an explosive rise similar to the rise of 1920, followed by the collapse which came in 1920 and 1921. We rather doubt whether this will happen, as it seems to us that price control on many items will be retained until the end of next June and that by this time the danger of an explosive rise will be greatly reduced. We think that costs will continue upward with a gradual rise which will last for a number of years. If an explosive rise should occur similar to the rise in 1920 it would naturally be followed by a period of declining building costs for a short time until they stabilized at some postwar level. The dangers inherent in a sudden rise of considerable proportions are that this rise may be taken by mortgage lenders as an indication of an increase in the actual value of the property and mortgage loans might be made at a high percentage of this replacement cost. If the replacement cost falls sharply during the next few years, the owner of the property might find that he could build a new house for less than he still owed on the old one. Whenever this condition has arisen it has been accompanied by high foreclosures.



REAL ESTATE TRANSFERS IN PRINCIPAL CITIES

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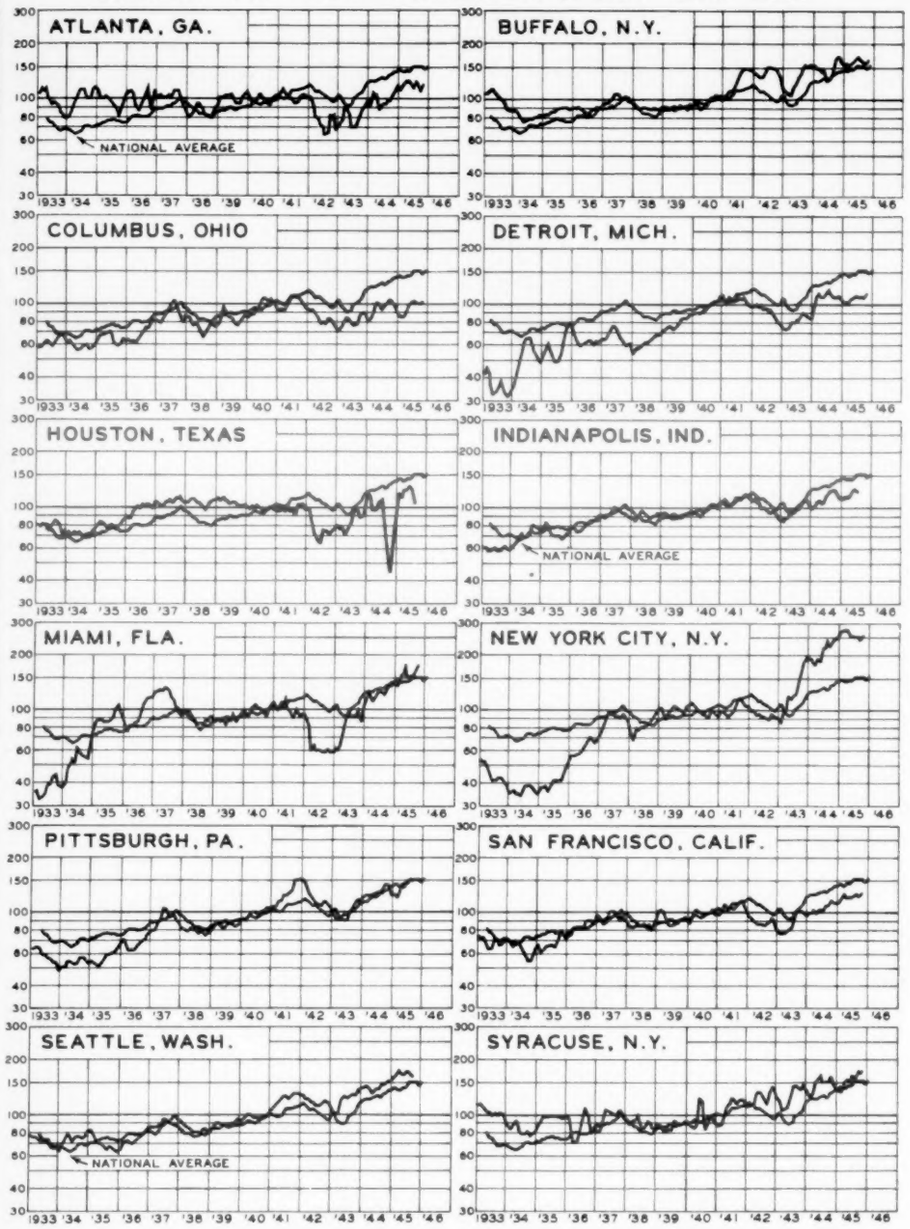

REAL ESTATE TRANSFERS IN PRINCIPAL CITIES

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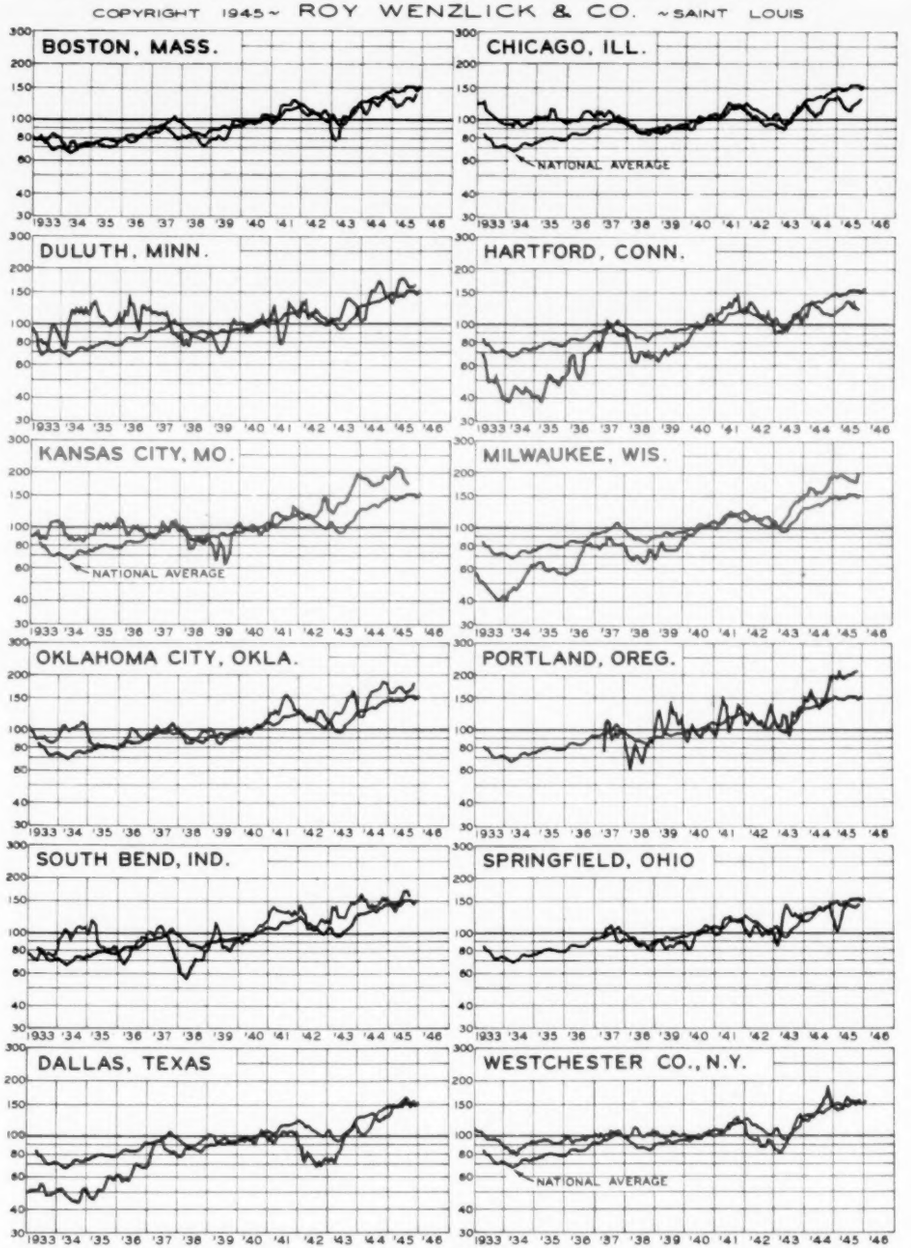
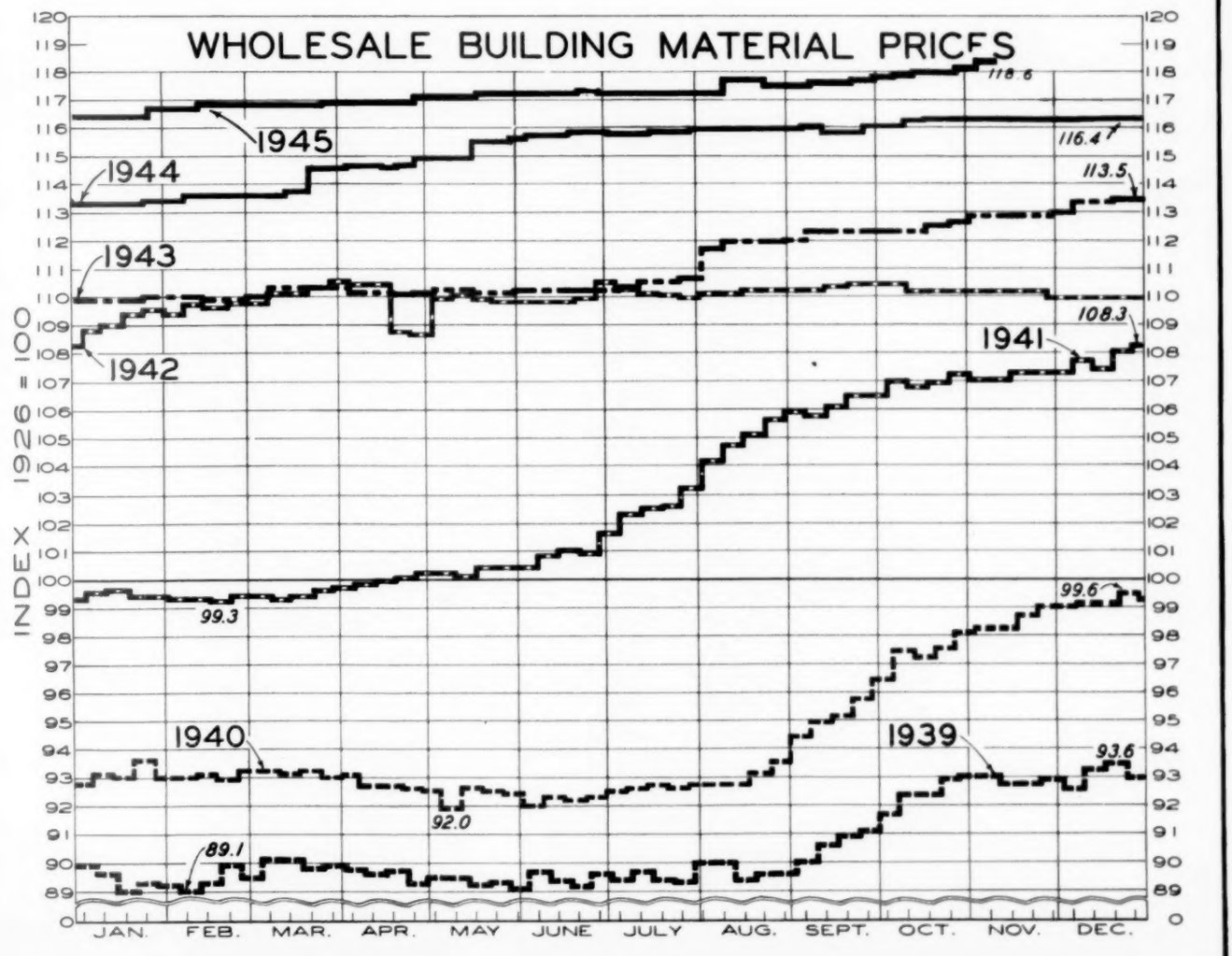


WHOLESALE BUILDING MATERIAL PRICES

THE chart below shows wholesale building material prices from January 1939 to the present. It will be noticed that over this entire period building material prices have been creeping upward. At the time that the Second World War started in Europe prices were at a level 10.4 per cent below the 1926 average. At the present time prices are 18.6 per cent above the 1926 level. This is an increase over the level at the beginning of the Second World war of 32.3 per cent. The actual increase in building material costs at retail, however, has been greater as is shown by the fact that the materials which enter into the standard six-room frame house in St. Louis are now 46.5 per cent higher than they were at the time that the war started. Building material prices, in our opinion, will continue upward during all of 1946 and probably will continue upward for the next several years. There is some possibility that building material prices might rise rather rapidly in the second half of 1946, as price control under present legislation will expire on July 1. If this happens, it might repeat the experience in 1920 with a rapid rise and a decline a little later.

It is probable that the peak of construction costs will come sometime within the next three years and that then costs will start a long decline. If inflation goes wild, however, costs will continue up.



ESTIMATED NUMBER OF NEW NONFARM DWELLING UNITS

1920 ... 247,000	1925 ... 937,000	1930 ... 330,000	1935 ... 221,000
1921 ... 449,000	1926 ... 849,000	1931 ... 254,000	1936 ... 319,000
1922 ... 716,000	1927 ... 810,000	1932 ... 134,000	1937 ... 336,000
1923 ... 871,000	1928 ... 753,000	1933 ... 93,000	1938 ... 406,000
1924 ... 893,000	1929 ... 509,000	1934 ... 126,000	1939 ... 515,000

MONTHLY FIGURES

	1939	1940	1941	1942	1943	1944	1945
January	32,300	25,700	41,200	34,500	45,000	17,300	7,400
February	30,700	36,900	43,700	51,300	40,100	13,500	8,500
March	42,900	46,000	60,200	52,700	33,000	18,100	13,500
April	42,900	62,900	75,200	59,700	26,700	14,300	19,000
May	53,300	57,000	70,700	60,600	33,600	16,500	19,900
June	45,900	44,100	77,200	46,300	21,800	17,500	20,400
July	44,200	57,600	74,600	26,700	24,200	14,500	23,300
August	51,200	55,800	69,800	27,500	27,600	12,800	20,100
September	42,400	58,400	67,000	40,400	24,300	11,300	22,000
October	42,900	66,200	56,200	32,200	28,100	10,800	29,300
November	45,100	44,900	46,600	30,400	26,100	11,600	
December	41,200	47,000	32,800	34,300	19,500	10,800	

CUMULATIVE FIGURES

January	32,300	25,700	41,200	34,500	45,000	17,300	7,400
February	63,000	62,600	84,900	85,800	85,100	30,800	15,900
March	105,900	108,600	145,100	138,500	118,100	48,900	29,400
April	148,800	171,500	220,300	198,200	144,800	63,200	48,400
May	202,100	228,500	291,000	258,800	178,400	79,700	68,300
June	248,000	272,600	368,200	305,100	200,200	97,200	88,700
July	292,200	330,200	442,800	331,800	224,400	111,700	112,000
August	343,400	386,000	512,600	359,300	252,000	124,500	132,100
September	385,800	444,400	579,600	399,700	276,300	135,800	154,100
October	428,700	510,600	635,800	431,900	304,400	146,600	183,400
November	473,800	555,500	682,400	462,300	330,500	158,200	
December	515,000	602,500	715,200	496,600	350,000	169,000	

12-MONTH MOVING TOTALS

January		508,400	618,000	708,500	507,100	322,300	159,100
February		514,600	624,800	716,100	495,900	295,700	154,100
March		517,700	639,000	708,600	476,200	280,800	149,500
April		537,700	651,300	693,100	443,200	268,400	154,200
May		541,400	665,000	683,000	416,200	251,300	157,600
June		539,600	698,100	652,100	391,700	247,000	160,500
July		553,000	715,100	604,200	389,200	237,300	169,300
August		557,600	729,100	561,900	389,300	222,500	176,600
September		573,600	737,700	535,300	373,200	209,500	187,300
October		596,900	727,700	511,300	369,100	192,200	205,800
November		596,700	729,400	495,100	364,800	177,700	
December	515,000	602,500	715,200	496,600	350,000	169,000	

REAL ESTATE ANALYSTS INC.

EXECUTIVE DIGEST

OF THE CURRENT REAL ESTATE ANALYST REPORTS

NOVEMBER 1945

ROY WENZLICK & CO.

Real Estate Economists, Appraisers and Counselors

VOLUME XIV

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Roy Wenzlick
Editor

REAL ESTATE ACTIVITY

The preliminary index of real estate activity for the month of October was 56.4 per cent above normal. This is the highest point yet reached in the present period for real estate activity and indicates that the unemployment due to reconversion has not yet affected the demand for homes. We are becoming more and more convinced that the present real estate boom will continue for an extended period and that the safest policy is to hold on to a well-located, well-designed building until we can find out how far inflation will probably go. If inflation can be held within reasonable limits the best policy would be to sell improved real estate for residential occupancy at some time during the next two years, but on the other hand, if inflation is going to run to extreme lengths in the United States the wiser policy would be to hang on to all tangible property. We think there is relatively little risk in delaying sales at the present time until these trends become more readily discernible.

FORECLOSURES

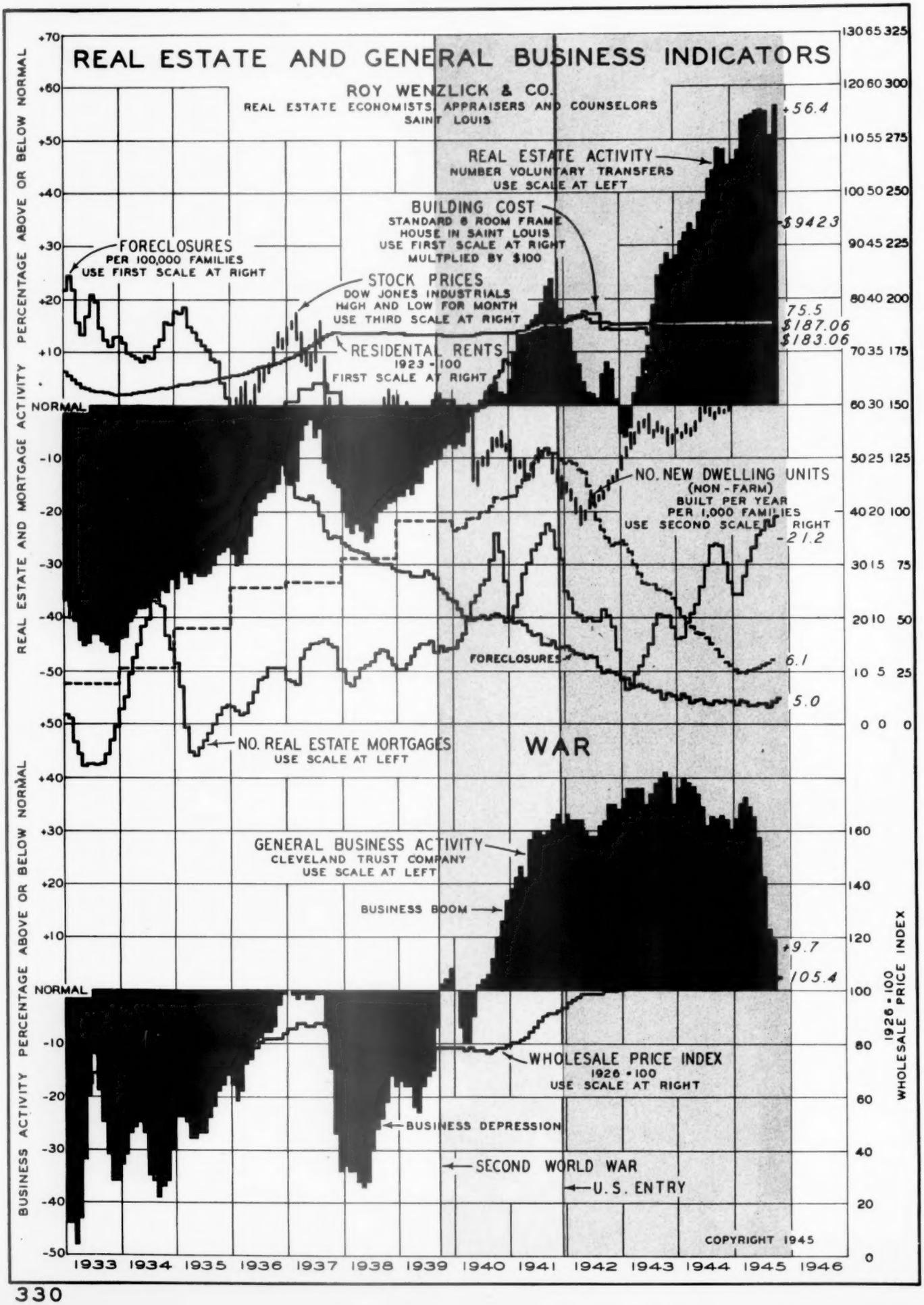
Foreclosures have shown a slight increase in the last few months but the increase so far is of such small proportions that it is almost negligible. For comparative purposes, however, the figures are given in the table below for 1944 and 1945.

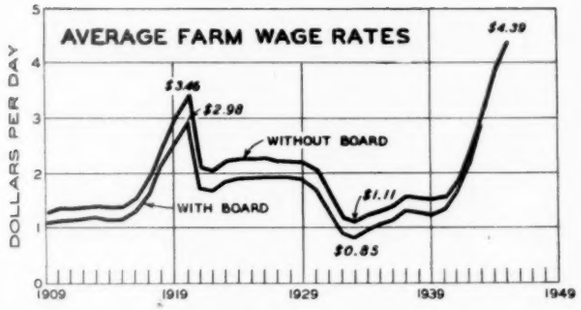
Average Number of Foreclosures Per Month Per 100,000 Families
In All Nonfarm Areas Of the United States

1944		1945	
January	4.8	January	3.8
February	5.7	February	4.7
March	5.2	March	4.5
April	4.1	April	3.8
May	4.5	May	3.8
June	4.7	June	4.1
July	4.2	July	4.1
August	4.0	August	3.5
September	4.6	September	4.3
October	4.2	October	5.0
November	4.7	November	
December	4.5	December	

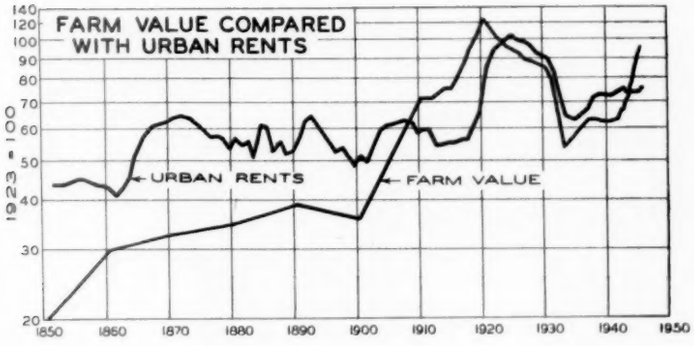
REAL ESTATE MORTGAGES

The preliminary index for mortgage activity in all nonfarm areas of the United States reached a new high during October, at a level higher than has been reached since the declining volume dropped in 1931. New residential

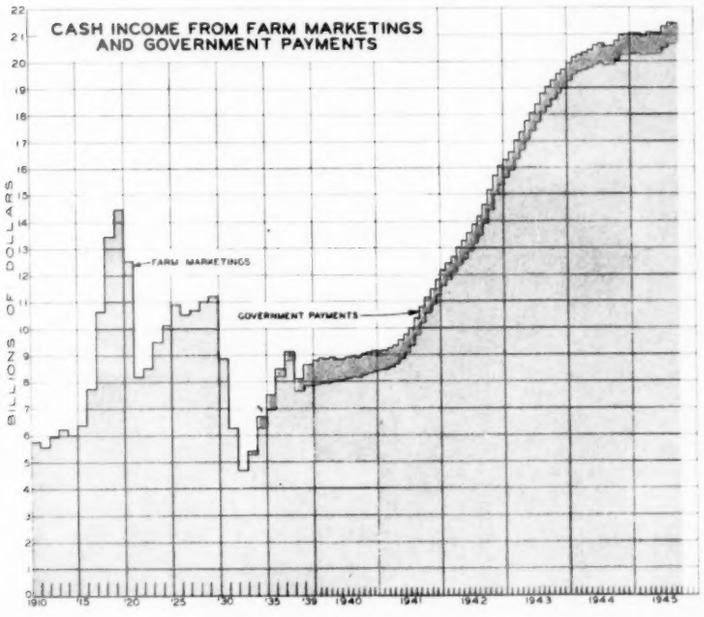

REAL ESTATE AND GENERAL BUSINESS INDICATORS
ROY WENZLICK & CO.
REAL ESTATE ECONOMISTS, APPRAISERS AND COUNSELORS
SAINT LOUIS
REAL ESTATE ACTIVITY
NUMBER VOLUNTARY TRANSFERS
USE SCALE AT LEFT
+56.4
BUILDING COST
STANDARD 6 ROOM FRAME
HOUSE IN SAINT LOUIS
USE FIRST SCALE AT RIGHT
MULTPLIED BY $100
$9423
FORECLOSURES
PER 100,000 FAMILIES
USE FIRST SCALE AT RIGHT
STOCK PRICES
DOW JONES INDUSTRIALS
HIGH AND LOW FOR MONTH
USE THIRD SCALE AT RIGHT
75.5
$187.06
$183.06
RESIDENTAL RENTS
1923 - 100
FIRST SCALE AT RIGHT
NORMAL
NO. NEW DWELLING UNITS
(NON-FARM)
BUILT PER YEAR
PER 1,000 FAMILIES
USE SECOND SCALE AT RIGHT
-21.2
FORECLOSURES
6.1
5.0
NO. REAL ESTATE MORTGAGES
USE SCALE AT LEFT
WAR
GENERAL BUSINESS ACTIVITY
CLEVELAND TRUST COMPANY
USE SCALE AT LEFT
BUSINESS BOOM
+9.7
105.4
NORMAL
WHOLESALE PRICE INDEX
1926 - 100
USE SCALE AT RIGHT
BUSINESS DEPRESSION
SECOND WORLD WAR
U.S. ENTRY
COPYRIGHT 1945
REAL ESTATE AND MORTGAGE ACTIVITY PERCENTAGE ABOVE OR BELOW NORMAL
BUSINESS ACTIVITY PERCENTAGE ABOVE OR BELOW NORMAL
WHOLESALE PRICE INDEX
1926 - 100
+70 +60 +50 +40 +30 +20 +10 -10 -20 -30 -40 -50
130 65 325
120 60 300
110 55 275
100 50 250
90 45 225
80 40 200
70 35 175
60 30 150
50 25 125
40 20 100
30 15 75
20 10 50
10 5 25
0 0 0
160 140 120 100 80 60 40 20 0
1933 1934 1935 1936 1937 1938 1939 1940 1941 1942 1943 1944 1945 1946



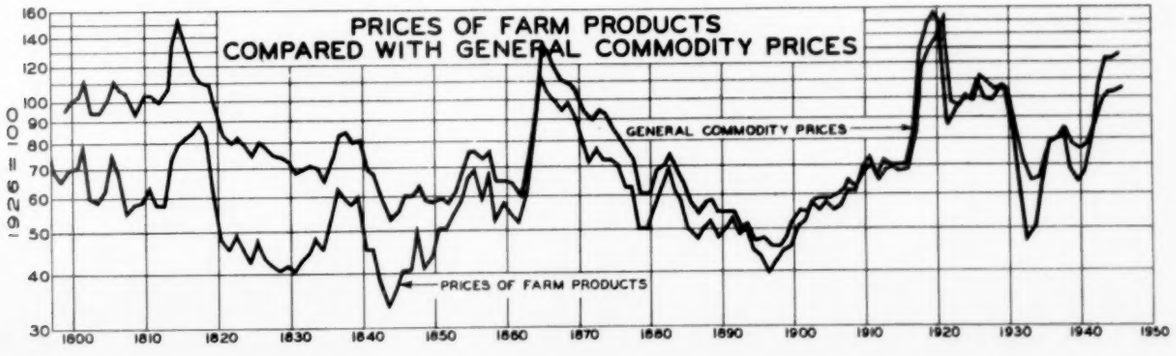
The chart to the left shows that at the present time the average farm wage rates without board are approximately four times the rate which prevailed at the bottom of the depression. They are now 27 per cent above the previous peak in 1920. Figures are not available on wages since 1942 with board included. Farm values have been rising rapidly since the beginning of the war in Europe.



The chart to the left shows the behavior of farm values from 1850 to the present in comparison with the fluctuations in urban rents. Due to rent freezing, rents have gone over practically sideways during the war period. In spite of this freezing of urban rents, urban values have shown much of the same increase as shown by farm values. This is due almost entirely to the scarcity value of property in a market in which building has been almost microscopic and to the fact that building costs have advanced sharply.



The chart to the left shows one of the principal reasons why farm values have advanced in the fashion they have since the beginning of the war in Europe. This chart shows cash income from farm marketings and government payments over the period from 1910 to the present. It is rather interesting to note that in the period in which farm marketings have been far higher than they have ever been in the past, government payments have been almost as high as they were before the war started and when farms were still in distress.



building is starting to increase slowly and during October reached a level in nonfarm areas of the United States of 6.7 new family accommodations per year per thousand families. The low point reached in building was 4.9 new dwellings per month in March 1945. In comparison with preceding Octobers, the figures for October 1945 do not look high. The table below gives the October figures since 1940:

1940	21.4	1943	12.7
1941	25.5	1944	6.4
1942	17.6	1945	6.7

BUILDING COSTS

The cost of building the standard six-room frame house in St. Louis in November is $9423. This is an increase of $19 over the October figure. Divided between labor, material and overhead the figures for October and November are as follows:

	October	November
Material ..	$4,354	$4,368
Labor	3,177	3,177
Overhead ..	1,873	1,878
Total ..	$9,404	$9,423

The slight rise in the cost in November was due to an increase in the price of heating and plumbing materials.

BUSINESS ACTIVITY

Business activity is dropping quite rapidly due to a combination of strikes, shortages and frictional unemployment during reconversion. The preliminary level for the month of October was 5 per cent above normal on our large chart. This compares with a peak of slightly better than 40 per cent above normal in the fall of 1943. If the labor troubles which are now plaguing recovery could be settled within the next few months, business during 1946 should be in very satisfactory volume.

STOCK MARKET

The market has had some very large rises in the recent past and naturally is in a more vulnerable position at the present time than it was at lower levels. It is our opinion, however, that for the long pull the market will go considerably higher, although the possibility of temporary reactions is of course recognized.

THE REAL ESTATE ANALYSTS

VOLUME XIV

NOVEMBER
1945

As I see

32-YEAR LOANS AT 4% INTEREST

THE Wagner-Ellender-Taft Bill introduced in the Senate a short time ago provides many radical innovations for real estate practice, both private and public. One of the provisions of the bill is to authorize the FHA to guarantee mortgages up to 95 per cent of the appraised value on low-cost homes (up to about $5300), the interest rate not to exceed 4 per cent, with 32-year maturity.

First, let me say that I am, of course, in complete agreement with the objective of the long-term loan on residential building at a low rate of interest. Every person who has the good of his own community at heart would like to see housing made available at the lowest possible cost to the greatest number of people. I am also in agreement with the objective because I think it necessary to increase the housing supply rapidly during the next few years. This cannot be done under the present high cost of construction unless the monthly cost of ownership can be kept low. The only way a high construction cost can be offset is by a lower interest rate or a longer period of amortization.

Being in agreement, however, with the objective of a piece of legislation does not necessarily imply that the person must be in agreement with the methods by which that objective is attempted. In my opinion, the thirty-two year loan at 4 per cent interest on low-cost residential units is extremely unsafe, will result in heavy foreclosures and in considerable loss to both the individuals attempting to purchase loans and to the FHA through its insurance fund.

My reasons for this belief can best be explained by examining the reasons why real estate goes up and down in value over a period of years. I have often formulated these principles in our reports but for the sake of completeness let us review briefly the general principles which determine value of properties. At any particular time in any community the price at which any particular type of property will change hands will depend primarily on the relationship in that community of the supply of that type of property to the demand for it. This means that if a shortage exists for any particular type of property, the price of that property will be high until the supply is augmented. On the other hand, if an over-supply of any particular type of property exists the price of that type of property will be low until the oversupply has been absorbed. Over a long period, however, the factors which determine the changes in value of residential properties might be classified as the factors which affect the monthly cost of ownership of the new additions that must be added to the supply in that community to take care of the demand.

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This sounds a little complicated and I think it can be simplified by breaking it down into its component parts.

The monthly cost of ownership is determined by the level of the interest rate, of general financing costs, of replacement costs, building and land management, of real estate taxes, and by all other factors which affect in any way the changes in the cost of ownership.

If this general principle is true it means that if the replacement cost should change radically in a period of time, the values of existing properties would show a tendency to react in a similar fashion. In other words, the increase in sales prices which is coming at the present time is due not only to the scarcity factor, which of course is quite apparent and which is a short-run factor, but also to the very greatly increased cost of replacement. In a period when replacement costs are rising, this factor increases the safety of mortgages because even 100 per cent mortgages made on a rising market shortly become 90 per cent, 80 per cent, or 70 per cent mortgages, and as the market continues to rise an equity is built above the mortgage. On the other hand, in a falling market when construction costs are dropping the values of existing properties are declining not only due to accrued depreciation but also due to the fact that the depreciation allowance must be deducted not from the original cost but from the replacement cost of the property. Unfortunately, construction costs have fluctuated rather wildly as a more or less regular thing. We have had relatively few periods in the United States when construction costs moved sideways without great change over a period of four or five years.

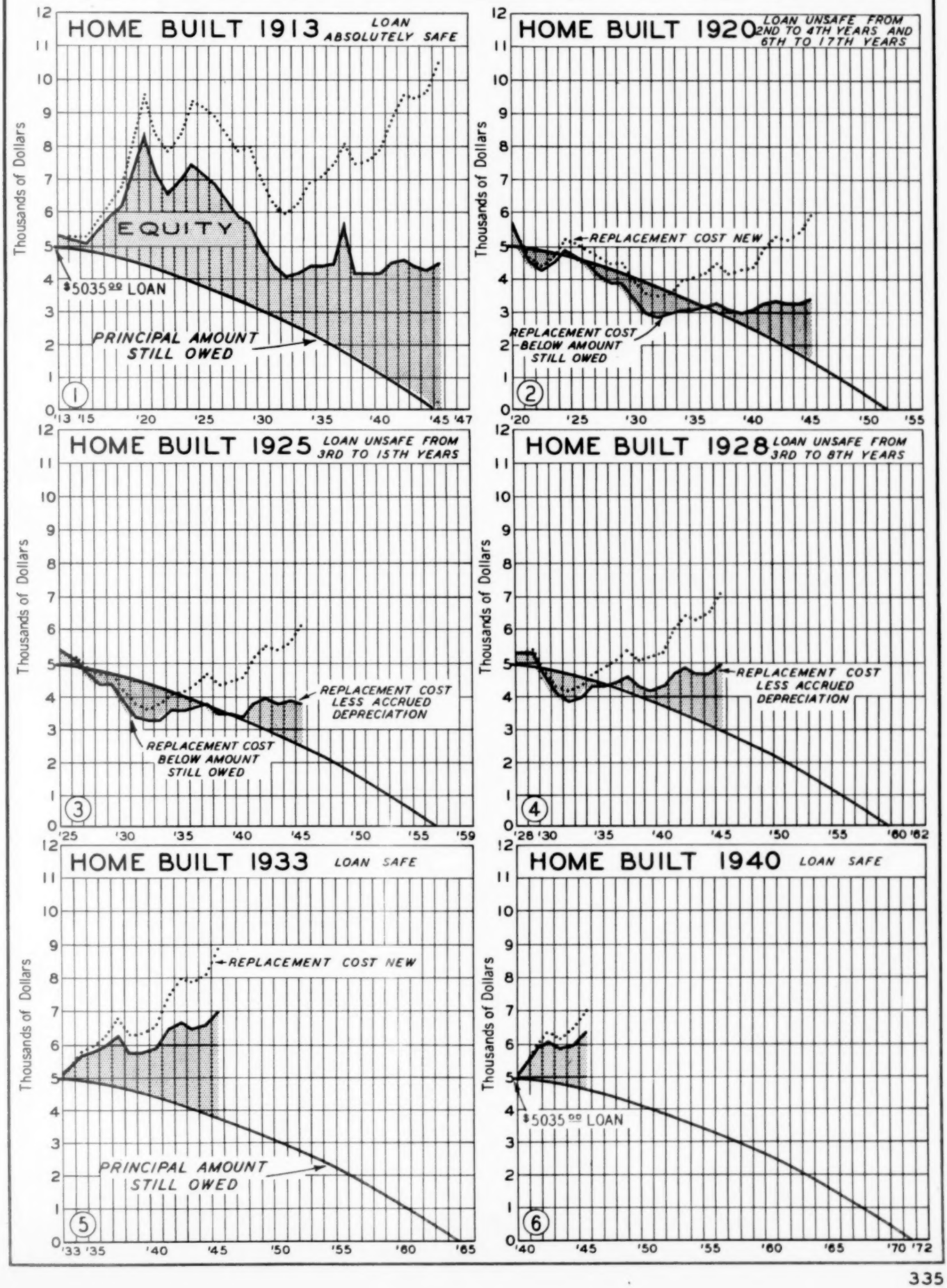
The table below will show the changes which have come in replacement costs of the standard six-room frame house in St. Louis in a one-year period. The table shows that occasionally these changes are quite great.

BUILDING COSTS - STANDARD HOUSE
Greatest Increases or Decreases in 1-Year Periods

Increases		Decreases	
1918-19	23.6%	1930-31	14.1%
1919-20	19.8	1920-21	14.0
Nov. 1944-Nov. 1945	19.1	1929-30	12.3
July 1940-July 1941	18.9	1937-38	8.3
April 1941-April 1942	13.9	1921-22	7.6
1923-24	12.9	1927-28	6.7
1933-34	12.5	1926-27	5.8
1916-17	11.3	July 1942-July 1943	5.3
1915-16	11.2	1931-32	4.2
1917-18	9.2	1925-26	3.3

If the period is changed to two, three or four years, these percentage changes of increase or decrease are still more striking. In a two-year period, 1929 to 1931, replacement costs of buildings already built decreased by 24.7 per cent, and in the three-year period 1929 to 1932, the drop was 27.8 per cent. In a four-year period 1927 to 1931, the drop was 29.5 per cent. In a similar fashion, the increases in a relatively short time have also been quite

AMORTIZING 95% LOANS IN 32 YEARS


HOME BUILT 1913
LOAN ABSOLUTELY SAFE
EQUITY
$5035.00 LOAN
PRINCIPAL AMOUNT STILL OWED
Thousands of Dollars
'13 '15 '20 '25 '30 '35 '40 '45 '47
1
HOME BUILT 1920
LOAN UNSAFE FROM 2ND TO 4TH YEARS AND 6TH TO 17TH YEARS
REPLACEMENT COST NEW
REPLACEMENT COST BELOW AMOUNT STILL OWED
'20 '25 '30 '35 '40 '45 '50 '55
2
HOME BUILT 1925
LOAN UNSAFE FROM 3RD TO 15TH YEARS
REPLACEMENT COST LESS ACCRUED DEPRECIATION
REPLACEMENT COST BELOW AMOUNT STILL OWED
'25 '30 '35 '40 '45 '50 '55 '59
3
HOME BUILT 1928
LOAN UNSAFE FROM 3RD TO 8TH YEARS
REPLACEMENT COST LESS ACCRUED DEPRECIATION
'28 '30 '35 '40 '45 '50 '55 '60 '62
4
HOME BUILT 1933
LOAN SAFE
REPLACEMENT COST NEW
PRINCIPAL AMOUNT STILL OWED
'33 '35 '40 '45 '50 '55 '60 '65
5
HOME BUILT 1940
LOAN SAFE
$5035.00 LOAN
'40 '45 '50 '55 '60 '65 '70 '72
6

striking. From 1916 to 1920, a four-year period, construction costs increased by 80 per cent. In those periods in which construction costs were dropping the values of all buildings already built dropped at the same time and by approximately the same percentage. That brought about the heavy foreclosures of the thirties and may bring about heavy foreclosures in the late forties or early fifties.

In order to test long-term high percentage loans the six charts are shown on the preceding page. These charts show what would have happened to mortgages made on a ninety-five per cent basis for a thirty-two year period had these mortgages been made in the past.

The first chart assumes that a home was built for $5300 in 1913 and that this was financed with a 95 per cent loan. The red line on the chart shows the rate at which the principal amount of the loan was decreased by monthly payments. The dotted line at the top of the chart shows the actual fluctuations in replacement cost which occurred in the thirty-two years following 1913. It will be noticed that these fluctuations were quite wide. The black solid line at the top of the shaded area is the replacement-cost-new line depreciated each year by 2 per cent. Our studies of values have shown that actual depreciation in a free market approaches this two per cent theoretical rate. It will be noticed that this loan has been safe over its entire period as at no time was the equity reduced to a point where the loan was in danger.

It will be seen that a home built in 1920 was built at a cost which decreased sharply during the next few years, with the result that the depreciated value of the building two or three years later was less than the amount still owed on it, and the owner could have built a new building for less than he still owed on the old building. This was still more pronounced after payments had been made for a period of twelve or thirteen years. At that time the owner could have built a new building for less than he still owed on a building which by that time was becoming obsolete and was showing considerable physical deterioration. Should the replacement cost experience in the years ahead be similar to the experience following 1920, 95 per cent loans made for a 32-year period would be extremely unsafe.

A home built in 1926, had it been financed on the suggested basis, would have had an unsafe loan from the third to the fifteenth year of the loan. A home built in 1928 with a 95 per cent loan for thirty-two years would have had an unsafe loan from the third to the eighth years.

Buildings built during the depression were built at low cost with a rapidly rising trend developing during succeeding years. These loans would have been safe had they been made at 110 per cent of the value, as the rising construction costs have built an equity above the loan. This was still true in 1940 and my opinion is that it is still true today, but that we are approaching the end of the period in which high percentage loans can be made for a long period with safety.

In my opinion it would be extremely unwise for the FHA to agree to insure loans of 95 per cent of the value of the property for 32-year periods.

ROY WENZLICK